Municipal Pension Plan

Annual Report

January 1, 2003 to December 31, 2003

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British Columbia

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Your Pension Plan

2003

Annual Report

Municipal Pension Plan
British Columbia

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Your Pension Plan...

The Municipal Pension Plan is for you—plan members who have made contributions to ensure you'll have income when you retire. Your plan is governed by a group of trustees representing different union and non-union members and employers, as well as retirees. The 16 trustees and our alternates make up the Municipal Pension Board of Trustees and our job is to manage the plan in the best interests of all members.

Of course we cannot manage the pension plan alone, so the BC Pension Corporation provides pension administration services, and the British Columbia Investment Management Corporation invests the pension funds on our behalf. We appreciate the quality of work, and are very satisfied with the services provided by both agents.

...our job is to manage the plan in the best interests of all members.

This report gives us an opportunity to tell you about the improvements and changes that took place in your pension plan in 2003. We also want to report on the financial health of the plan, which has over $16 billion in assets. The most important issue for any pension plan is long-term results, and we're committed to achieving consistent and steady performance over the long term.

Ken Bayne—Chair, Municipal Pension Board of Trustees

The board of trustees would like to welcome all the new plan members and employers who joined the Municipal Pension Plan in 2003. You have entered into a relationship with the largest pension plan in BC, and the eighth largest pension plan in Canada. We are about 190,000 members strong; members like you, who will receive a retirement income every month for the rest of your lives.

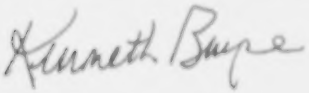
We're committed to plain language writing. In 2003 we continued improving our communications with members by streamlining material and providing plan information that is easier to understand. One such product we're currently developing is a new retirement package that will simplify the retirement process for our members. We're looking forward to it becoming available in 2004.

In November, we agreed upon a new board governance structure that will result in a positive impact on our work. We elected a new chair and vice-chair from among the trustees. Under the new structure, the vice chair will become the chair in 2005. This process will be repeated annually, ensuring a wealth of experience and knowledge in the leadership positions. In addition, we now have a senior administrative officer working with the board who will act as liaison between the trustees and our agents.

Your Pension Plan

We've worked hard to ensure that you get prompt, friendly and efficient service, and we promise to continue in our efforts to make your retirement process easy. We're committed to ensuring that your pension plan is well managed, and we look forward to continuing to work on your behalf to fulfill the pension promise.

We want to hear from you. If you'd like to contact us or share your comments, please write, call or e-mail us at the address on the back cover.



Kenneth Bayne, Chair

...we promise to continue in our efforts to make your retirement process easy.

Lyn Vandermey—Trustee, Municipal Pension Board of Trustees

Municipal Pension Board of Trustees

December 31, 2003

Chair	Kenneth Bayne	
Vice-Chair	Sharon Saunders	
Trustees	**Alternates**	
Kenneth Bayne		Excluded Employees
Dennis Blatchford	Miriam Sobrino	Health Sciences Association of British Columbia
Brendan Dick	Kelly Knox	Hospital Employees' Union
John Johnston	Jane Lindstrom	Health Employers Association of British Columbia
Barbara Ingamells	Richard Taylor	Union of British Columbia Municipalities
Gary Johnson	Donisa Bernardo	Municipal Employees' Pension Committee
Frank Leonard	Richard Taylor	Union of British Columbia Municipalities
Louise Mercer	Bruce Kennedy	Provincial Government
Brian Northam	Koni Marrington	Council of Joint Organizations and Unions
Ed Pakos	Mark Schulz	British Columbia Professional Fire Fighters' Association and British Columbia Federation of Police Officers
Steven Polak	Cliff Ivers	Municipal Employees' Pension Committee (retired plan member)
Sharon Saunders	Fran Macdonnell	British Columbia Nurses' Union
Joe Strain	Terry Killough	British Columbia Public School Employers' Association
Lyn Vandermey	Gary Moser	Health Employers Association of British Columbia
Maria Wahl	Barry O'Neill	Canadian Union of Public Employees, British Columbia Division
Hilary Woodward	Barbara Reuther	Provincial Government

Trustees, Partners & Agents

The Municipal Pension Plan is governed by representatives of both plan members and plan employers. These representatives make up the board of trustees. The trustees are appointed by the plan partners such as the provincial government, the Union of British Columbia Municipalities, the Municipal Employees' Pension Committee and other stakeholders. This shared management is called joint trusteeship. More information on joint trusteeship is on the plan website at **pensionsbc.ca**.

The **Municipal Pension Board of Trustees** is responsible for the management of the pension plan, including the investment of the assets and the administration of the pension plan. The board looks after the best interests of the plan to ensure the funds are sufficient to pay pensions into the future. They decide on investment policies and make amendments to the pension plan rules. A plan rule change that results in a contribution rate change must be approved by the partners. If the actuary determines that it's necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees. This is where members are enrolled, contributions are collected, benefits are processed, and where pension payments come from.

The **British Columbia Investment Management Corporation** (bcIMC) provides investment management services as an agent of the board of trustees. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services and options.

More information on joint trusteeship is on the plan website at **pensionsbc.ca**.

bcIMC CEO Doug Pearce with vice-presidents Daryl Jones, Bryan Thomson, Kim Thornber and Dave Thorn

Member Services & Communications

The Municipal Pension Plan has a strong team of professionals devoted to providing quality, cost-effective services to plan members. Staff have made impressive gains in service improvements and efficiencies, including eliminating a backlog of purchase of service requests, adding new online services, improving client response time, and hosting seminars.

In 2003, retirement seminars were attended by approximately 5,500 plan members and their spouses. The seminars address such issues as pension options, how to maximize your pension, and other factors that affect pension entitlement. Members can download and review the presentation material at **pensionsbc.ca**.

We regularly conduct surveys of plan members to evaluate the quality of our services and to identify areas for improvement. The surveys show that both active and retired members give staff a high satisfaction rating for service quality. A survey of recent retirees showed 93% of the respondents were satisfied or very satisfied with communications materials.

Communicating with plan members is a priority of the Municipal Pension Board of Trustees. Guidelines have been developed to ensure all plan information is easy to understand and easy to use. By practicing plain language principles and focus testing many of our products, we continue to improve the effectiveness of our communications products.

New communications materials and new online products and services are continually being developed. We produce the annual *Member's Benefit Statement* which provides active plan members with updated information relating to their plan benefits, service, and contributions. The plan also regularly produces forms, bulletins, *Pensionfacts*—a series of fact sheets—and a newsletter for retired members. In addition, our website offers excellent pension plan information and online estimators at **pensionsbc.ca**.

The Municipal Pension Plan annual general meeting (AGM) provides members with an opportunity to speak directly to the trustees and to hear the latest information on pension issues. The 2003 AGM was held in Vancouver on November 8, with broadcasts to Nelson, Prince George, Victoria and Kamloops. Over 200 participants responded favourably and enjoyed the forum. All members and employers are invited to attend the next AGM on October 2, 2004. Details will be announced and posted on the website as soon as they are finalized.

The 2004 Municipal Pension Plan AGM will be held in Vancouver on October 2, with remote broadcasts to Nanaimo, Nelson, Prince George, Terrace, Vernon and Victoria at 9:30 a.m. and 10:30 a.m. in Cranbrook.

The AGM will also be available on our website **pensionsbc.ca**, *through our first-ever live and interactive webcast.*

Plan Membership

The Municipal Pension Plan serves nearly 190,000 members from more than 500 employers. Membership in the Municipal Pension Plan is open to all eligible employees of a municipality, school district, regional college, the health sector, police and fire fighters, and many other eligible employers. Once an employee elects or qualifies to contribute to the plan, contributions continue until the member terminates employment, retires, or reaches 35 years of pensionable service.

There are three types of members in the Municipal Pension Plan:

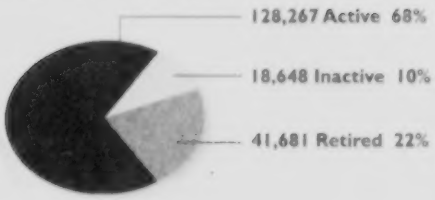
- **Active**—those who are currently contributing, are on a leave of absence, or are receiving benefits from an approved long-term disability plan.
- **Inactive**—those who have terminated their employment, but have left contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Municipal Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by a pension transfer agreement.
- **Retired**—those who are receiving a pension, including a disability pension.

We welcomed over 1,600 new members in 2003, an increase of about 1.3% from 2002. This year close to 3,000 retirees started collecting pensions, an increase of about 7.1% from 2002. The total number of retired members is about 42,000, and that number is expected to continue to grow in the next few years.

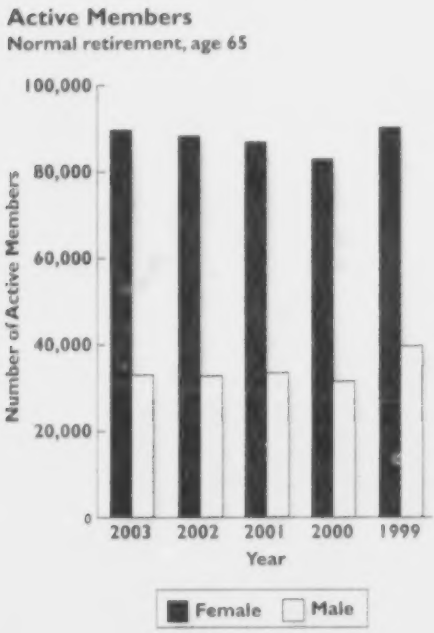
We welcomed over 1,600 new members in 2003, an increase of about 1.3% from 2002.

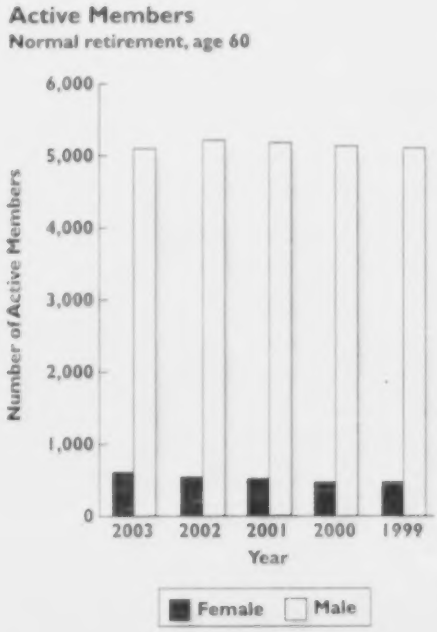
Shonda—Benefits Assistant, Municipal Member Services

2003 Membership Profile

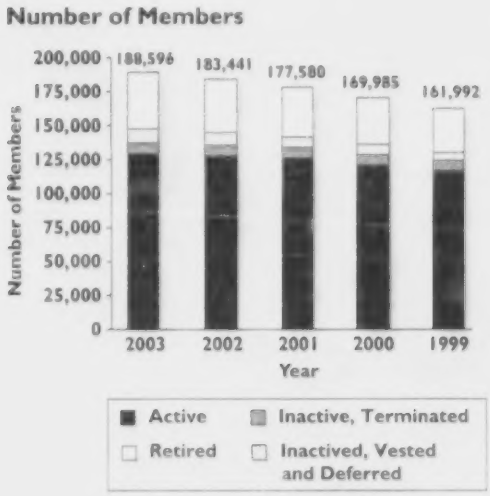


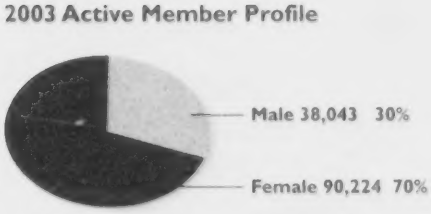
Plan Membership





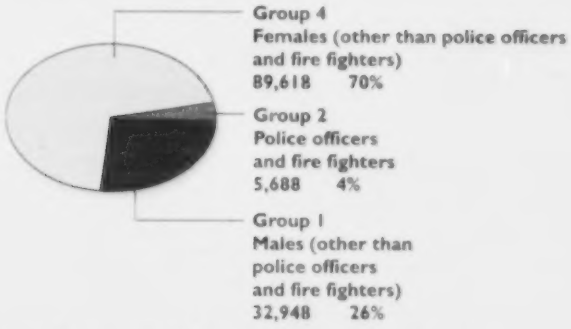
The Municipal Pension Plan serves nearly 190,000 members from more than 500 employers.





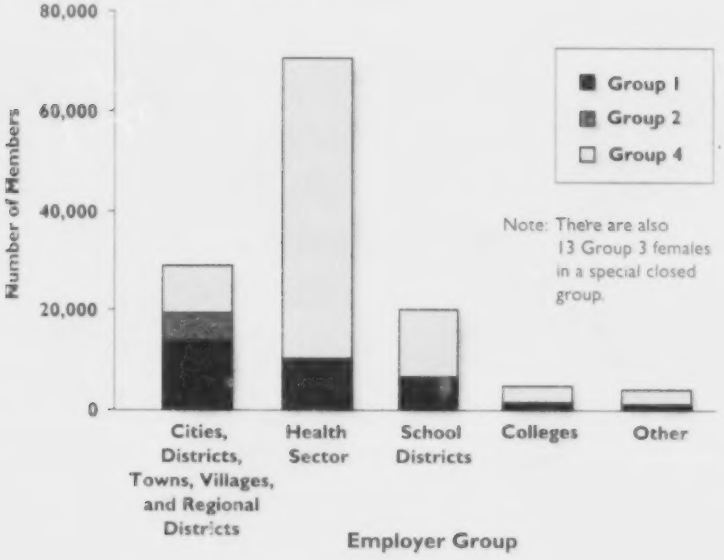
Plan Membership

Active Members by Group

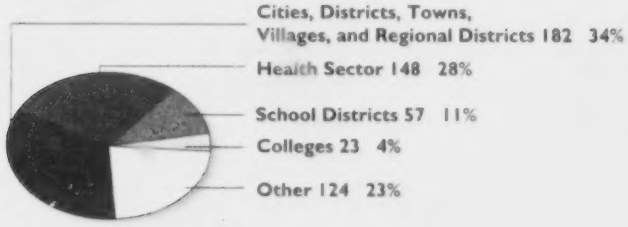


Note: There are also 13 Group 3 females in a special closed group.

Active Members by Employer Group



Municipal Pension Plan Employers


Cities, Districts, Towns, Villages, and Regional Districts 182 34%
Health Sector 148 28%
School Districts 57 11%
Colleges 23 4%
Other 124 23%

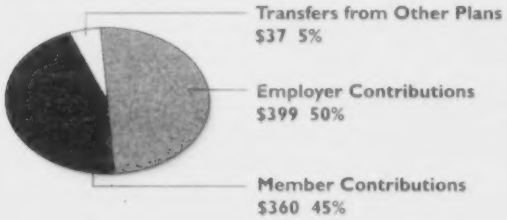
Contributions

Members of the Municipal Pension Plan contribute to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Employers contribute at varying rates, depending on the mix of active plan members in the group rate classification specified by the plan. The member contribution rates and the employer contribution rates on the page following are applied to pensionable salaries. Members contribute 6% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE; $39,900 in 2003), and 7.5% of salaries above that amount.

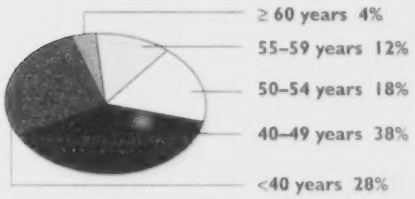
Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute.

2003 Contribution Revenue

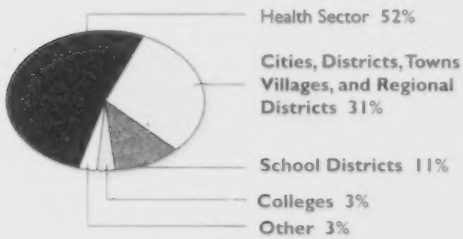
$ Millions



2003 Age Profile of Active Contributors



Total Regular Contributions by Employer Sector as a Percentage



Employer Contribution Rates by Group and Age
—salaries less than or equal to YMPE

Group	<45 Years	≥45 Years	<50 Years	≥50 Years
1	n/a	n/a	3.4%	8.3%
2	7.0%	15.5%	n/a	n/a
3	4.1%	9.7%	n/a	n/a
4	n/a	n/a	3.9%	9.3%

Employer Contribution Rates by Group and Age
—salaries greater than YMPE

Group	<45 Years	≥45 Years*	<50 Years	≥50 Years*
1	n/a	n/a	4.9%	9.8%
2	8.5%	17.0%	n/a	n/a
3	5.6%	11.2%	n/a	n/a
4	n/a	n/a	5.4%	10.8%

* The employer contribution rate doubles when a plan member reaches these ages.

Group 1: Males other than police officers and fire fighters
Group 2: Police officers and fire fighters
Group 3: Females pre-April 1971
Group 4: Females other than police officers and fire fighters

2003 Average Contribution Rates by Employer Sector

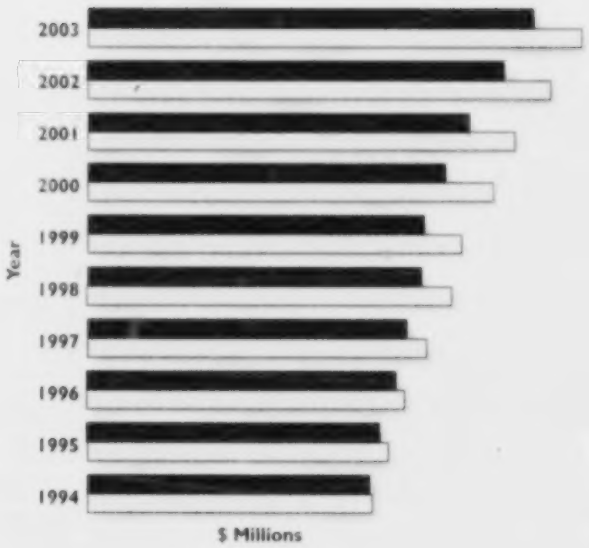
Health Sector	**7.28%**
Cities, Districts, Towns, Villages, and Regional Districts	**7.30%**
School Districts	**7.13%**
Colleges	**6.46%**
Other	**7.36%**

Both plan members and employers pay contributions to fund future pension benefits.

Contributions

Contributions
$ Millions

Year	Member	Employer
2003	360	399
2002	337	374
2001	308	345
2000	289	328
1999	272	302
1998	270	295
1997	258	274
1996	250	257
1995	237	243
1994	228	230



Emy—Office Manager,
Policy Branch

Plan Benefits

Pensions

The Municipal Pension Plan provides basic pension benefits that are based on how many years the member made contributions to the plan, the average of the best five years of salary and age at retirement. The benefits are not tied to financial market conditions. The plan also provides survivor and disability benefits. Members are entitled to a pension benefit after two years of contributory service. Benefits such as group health benefits and inflation protection to the basic pension are not guaranteed, and are contingent on available funding. The board monitors the ability to continue to provide these benefits on an ongoing basis.

Members can access the plan website at **pensionsbc.ca** for information on benefits and to access the online pension estimator.

If a member retires before age 65, their pension from the Municipal Pension Plan will include a temporary monthly payment called a bridge benefit. The bridge benefit is intended to "bridge" the gap between income before age 65 and income after age 65, when Canada Pension Plan (CPP) benefits typically begin.

Cost-of-living increases to the pension may be provided each year, based on the annual increase in the Consumer Price Index (CPI). This indexing is subject to the availability of funds in the Inflation Adjustment Account and is not guaranteed (See Note 7.b to the Financial Statements). On January 1, 2003, retired members received a full CPI increase of 2.3% (2002—2.6%).

In 2003, the Municipal Pension Plan provided pensions to almost 42,000 retired members, an increase of 7.1% over last year.

The table on the following page shows the average asset value ("present value") of pensions granted during 2003. The value represents approximately how much it would cost to purchase an average basic pension provided under the Municipal Pension Plan.

Basic Pension—*Monthly pension that is paid by the pension plan for a member's lifetime. The pension may continue to another person after the member's death, depending on the form of pension the member chooses at retirement.*

Bridge Benefit—*A temporary pension paid to the member from retirement until age 65 or death.*

Cost-of-living—*Increases to monthly pension amounts are based on the annual increase in the cost-of-living as measured by the Consumer Price Index. Cost-of-living adjustments begin the first January after a member retires.*

Basic Pension Formula:

1.3% × HAS (up to and including the YMPE)
× years of pensionable service
PLUS
2.0% × (HAS over the YMPE) × years of pensionable service

Plan Benefits

Average Values of Regular Pensions Granted January 1, 2003 to December 31, 2003

(Combination of those whose retirement age was 60 and 65)
Subdivided by years of service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	469	$42,000	$ 4,000	$ 59,000	$ 27.7
10–14	609	43,000	7,000	111,000	67.6
15–19	457	47,000	12,000	174,000	79.5
20–24	464	47,000	15,000	231,000	107.2
25–29	535	58,000	25,000	401,000	214.5
30–34	324	60,000	29,000	468,000	151.6
≥35 years	67	60,000	33,000	510,000	34.2
Total	**2,925**	**n/a**	**n/a**	**n/a**	**$682.3**
All Pension Average	n/a	$49,000	$15,000	$233,000	n/a

* Years of service includes service transferred from other plans.

Scott Browning—Director, Municipal Pension Plan

Pensions 1994–2003

	Granted during Year	Pension Terminations	In Force at End of Year	$ Millions Basic Pensions Paid	Inflation Adjustments Paid	Other Pensions Paid	Total
2003	**3,521**	**772**	**41,681**	**434.6**	**89.0**	**1.5**	**$25.1**
2002	3,307	653	38,932	391.5	82.3	1.2	475.0
2001	2,707	698	36,278	356.2	75.1	0.7	432.0
2000	2,629	636	34,269	325.1	67.9	0.4	393.4
1999	2,652	604	32,276	295.2	61.6	0.3	357.1
1998	2,340	606	30,228	268.4	61.6	0.2	330.2
1997	2,282	502	28,494	245.4	59.1	0.1	304.6
1996	2,080	439	26,714	224.0	57.0	0.1	281.1
1995	1,964	447	25,073	205.6	53.0	0.1	258.7
1994	1,991	418	23,556	188.0	53.9	0.1	242.0

Pensions Granted, by Type 1994–2003

	Regular*	Death*	LTD to Pension+	Deferred	Total
2003	**2,925**	**52**	**320**	**224**	**3,521**
2002	2,647	60	350	250	3,307
2001	2,173	70	301	163	2,707
2000	2,089	80	323	137	2,629
1999	1,992	50	447	163	2,652
1998	1,842	74	243	181	2,340
1997	1,815	47	274	146	2,282
1996	1,670	59	205	146	2,080
1995	1,575	52	200	137	1,964
1994	1,588	51	220	132	1,991

* Pensions granted do not include any pension continued to a beneficiary.
\+ Primarily represents members on long-term disability who became eligible for a regular pension.

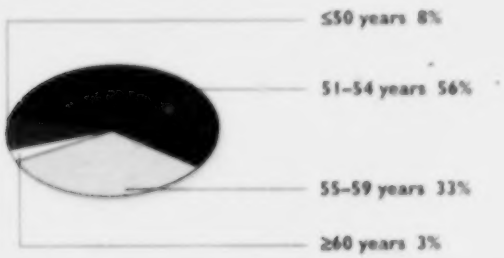
2003 Regular Pensions Granted by Age at Retirement

(For those whose normal retirement age was 60 [police officers and fire fighters])
Subdivided by years of service and age at retirement

Years of Service	≤50	51–54	55–59	≥60	Total
<10 years	–	–	–	–	0
10–14		1	–	1	2
15–19	1	1	2	–	4
20–24	–	8	9	3	20
25–29	29	169	52	3	253
30–34	3	47	59	2	111
≥35 years	–	1	13	1	15
Total	**33**	**227**	**135**	**10**	**405**

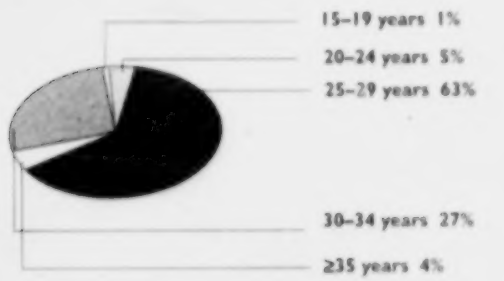
Percentage of 2003 Regular Pensions Granted by Age

Normal Retirement, Age 60



Percentage of 2003 Regular Pensions Granted by Years of Service

Normal Retirement, Age 60



Plan Benefits

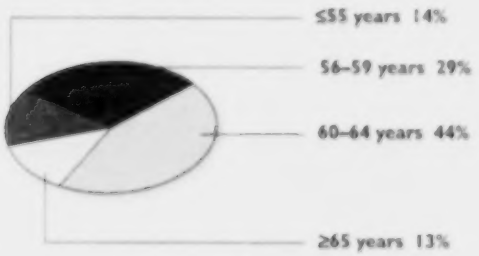
2003 Regular Pensions Granted by Age at Retirement

(For those whose normal retirement age was 65 [all plan members except police officers and fire fighters])
Subdivided by years of service and age at retirement

Years of Service	≤55	56–59	60–64	≥65	Total
<10 years	48	113	215	98	474
10–14	84	156	280	89	609
15–19	45	116	187	46	394
20–24	65	146	206	45	462
25–29	55	89	150	24	318
30–34	41	99	56	14	210
≥35 years	17	19	13	4	53
Total	**355**	**738**	**1,107**	**320**	**2,520**

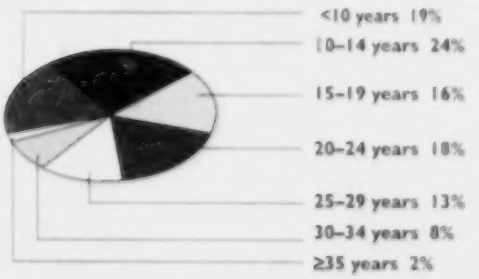
Percentage of 2003 Regular Pensions Granted by Age

Normal Retirement, Age 65



Percentage of 2003 Regular Pensions Granted by Years of Service

Normal Retirement, Age 65



Termination and Refund Benefits

A terminating member with two or more years of contributory service, who has not reached the earliest retirement age, may be eligible to choose:

- **A deferred pension**—a pension payable at a later date, either when the member is eligible, or deferred in order to later receive an unreduced pension; or
- **A commuted value payment**—a lump sum that represents the value of benefits earned to the termination date. It is the amount of money that needs to be set aside today, using current interest rates, to provide enough funds at retirement to pay your pension. A commuted value payment must be transferred to a locked-in registered retirement savings plan or a registered pension plan.

A terminating member may choose to leave their contributions on deposit in the plan in anticipation of future entitlements. If the member is under 60 with fewer than two years of service, he or she may also choose a refund of their contributions with interest.

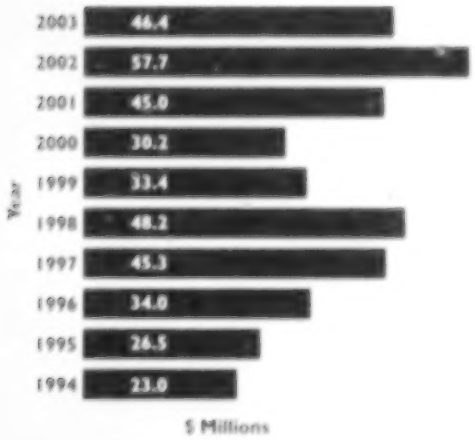
Interest compounds annually and is credited to the member's contribution balance. This information is included on the annual *Member's Benefit Statement*. The rate of interest is governed by pension standards legislation and is based on average bank five-year personal deposit rates (2003—3.38%; 2002—3.07%).

The number and value of termination and refund benefits paid can vary from year to year, depending on the employment environment, the type of benefit paid, and the plan member's entitlement. In 2003, the number and rate of termination and refund benefits paid decreased compared to 2002.

Suzanne—Team Leader, Municipal Pension Services

Plan Benefits

Value of Termination and Refund Benefits Paid



Number of Termination and Refund Benefits Paid

Benefits paid include only refunds of contributions and commuted value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan, at a different place of employment, if the new plan has an agreement with the Municipal Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers." In order to transfer service the member must have left their contributions on deposit, or reinstated service. Members of the Municipal Pension Plan who have made contributions to other pension plans may want to inquire about transfer agreements.

Transfer agreements are in place between the Municipal Pension Plan and the three large BC public sector plans (College, Teachers' and Public Service), and other plans that have signed agreements. In 2003, there were 856 reciprocal transfers-in from other pension plans and 1,022 transfers-out. The transfers-in totaled approximately $36.9 million; transfers-out totaled approximately $29.6 million.

Purchase of Additional Service

Members of the Municipal Pension Plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the pension plan. This service may include:

- leaves of absence (maternity, parental or other leave)
- arrears contributions (not enrolled, but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

Purchase of service rules changed April 1, 2002. There is a deadline for members to apply to purchase historical periods of service by March 31, 2007. Beginning April 1, 2007, members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on your plan website at **pensionsbc.ca**.

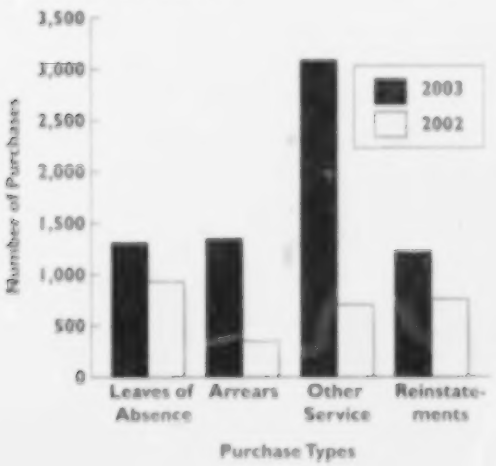
In 2003, the number of purchases of additional service increased 153% from 2002. The value of the purchases increased 75%.

There is a deadline for members to apply to purchase historical periods of service by March 31, 2007.

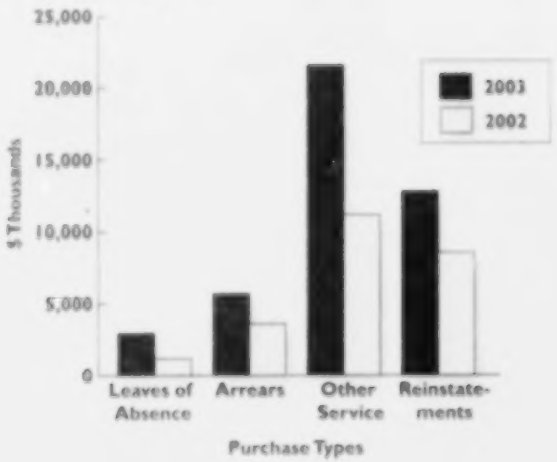
Kim—Benefits Assistant, Municipal Member Services

Member and Employer Purchases of Additional Service

Number of Purchases



Value of Purchases



Investments

Market Review

One of the major roles of the board of trustees as fiduciary for the plan is the responsibility for overseeing the investment of approximately $16.5 billion in assets for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision-making.

...overseeing the investment of approximately $16.5 billion in assets for the long-term benefit of the plan and its members.

The board of trustees approves the long-term asset mix policy for the investment assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (bonds, equities, real estate, etc.), industry sectors, and global markets.

The past year provided mixed results for the plan. Canadian equities were very strong as investors became less risk averse and money flowed back to stock markets. For example, Canadian stocks, as measured by the Toronto Stock Exchange index, were up 26.7%. While other markets experienced a similar rebound in investor confidence, the impact was largely offset by the rising Canadian dollar. The decline in long-term interest rates has lowered the return prospects for all asset classes. The days of double-digit returns are likely behind us for the foreseeable future. More significantly, it appears likely that fixed income instruments (e.g., bonds and mortgages) in themselves will not be able to generate sufficient returns to satisfy the plan's pension obligations. Ultimately, the long-term goal is to find investments that will generate strong cash flows to help satisfy the plan's future pension obligations.

Overall for the year, the plan's Basic Account recorded a 12.4% annual return on its investment portfolio. On a five-year basis the return for the plan's Basic Account was 5.2%.

Approved Investment Asset Mix

Our diversified investment portfolio focuses on achieving consistent and steady performance over the long term. The board of trustees approves the long-term asset mix policy for the investment assets, and oversees the management of those assets through the British Columbia Investment Management Corporation.

Strategic and short-term asset allocation targets are set within the ranges shown in the table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Brian Northam—Trustee, Municipal Pension Board of Trustees

Basic Investment Asset Mix and Performance

December 31, 2003

Asset Class	Approved Range (%)	Actual % of Assets	Rate of Return	Performance Benchmark**
Debt	**25–45**			
Short-term	0–5	1.7	3.9%	3.1%
Mortgages	0–10	4.0	6.9%	5.8%
Bonds	17–28	25.1	6.9%	6.8%
Real Return Bonds	0–10	4.3	*	13.3%
Equity	**55–75**			
Canadian Equities	12–22	20.6	26.7%	26.7%
U.S. Equities	10–20	16.6	9.8%	7.2%
International Equities	10–20	15.4	13.4%	13.7%
Real Estate	8–15	9.5	7.6%	6.0%
Private Placements	0–10	2.8	*	42.9%

* Annual rate of return not available.

** Benchmarks are standards to compare against actual investment returns.

Investments

Investment Portfolio

Investments are stated at fair market value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the value of the underlying assets. Income from investments represents pooled investment portfolio income attributable to the plan as a unit holder.

For further information on the investment portfolio, visit the bcIMC website at ***www.bcimc.com.***

Investments Held as at December 31, 2003

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Pooled Investment Portfolios		
Money Market	209,352	1.3
Canadian Bonds		
Government	2,663,662	16.2
Corporate	715,677	4.3
Long-term	686,721	4.2
Short-term	73,609	0.4
Canadian Equities		
Indexed	2,189,321	13.3
Actively Managed	1,220,426	7.4
U.S. Equities		
Indexed	2,192,280	13.3
Actively Managed	555,709	3.4
International Equities		
Asia	503,355	3.1
Europe	756,980	4.6
Europe, Australia and the Far East	1,324,189	8.0
Real Estate	1,570,621	9.5
Mortgages	661,538	4.0
Private Placements	415,011	2.5
Total Pooled Portfolios	**$15,738,451**	**95.5**
Canadian Real Return Bonds	$734,850	4.5
Total Investments	**$16,473,301**	**100%**
2002 Comparison	$14,505,564	

Investments Held as at December 31, 2003

Top Ten Holdings

(Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total
Royal Bank of Canada	$ 150,620	4.4%
Bank of Nova Scotia	150,128	4.4%
Toronto Dominion Bank	127,315	3.7%
Encana Corporation	103,492	3.1%
Alcan Inc.	100,246	2.9%
Canadian Imperial Bank of Commerce	99,872	2.9%
Bank of Montreal	99,563	2.9%
Manulife Financial	97,915	2.9%
BCE Inc	90,978	2.7%
Nortel Networks	78,838	2.3%
Total Top Ten	**$ 1,098,967**	**32.2%**
Total Canadian Equities	**$ 3,409,747**	

U.S. Equities

Company	Market Value ($ Thousands)	% of Total
Citigroup Inc	$ 53,983	2.0%
Exxon Mobil Corp	47,870	1.7%
Amern Intl Group	35,495	1.3%
Pfizer Inc	31,450	1.2%
Microsoft Corp	28,471	1.0%
General Electric	28,004	1.0%
Bank of America	24,819	0.9%
Intel Corp	18,763	0.7%
Verizon Communications	17,747	0.7%
Hewlett Packard	17,289	0.6%
Total Top Ten	**$ 303,891**	**11.1%**
Total U.S. Equities	**$ 2,747,989**	

International Equities

Company	Market Value ($ Thousands)	% of Total
Vodafone Group	$ 63,711	2.5%
Total Fina Elf	47,590	1.9%
Glaxosmithkline	46,364	1.8%
BP	43,286	1.7%
HSBC Hldgs	41,936	1.6%
Novartis AG	40,884	1.6%
Nestle SA	34,574	1.3%
Nokia OYJ	29,371	1.1%
ENI	28,505	1.1%
Roche Holdings AG	28,474	1.1%
Total Top Ten	**$ 404,695**	**15.7%**
Total International Equities	**$ 2,584,524**	

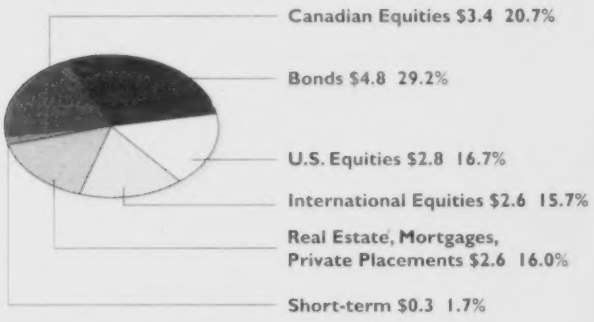
Terry Killough—Trustee, Municipal Pension Board of Trustees

Investments

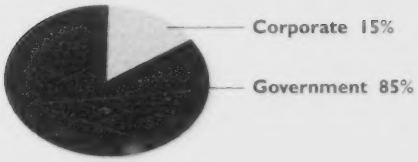
Investments Held as at December 31, 2003

2003 Investment Holdings (Market Value)

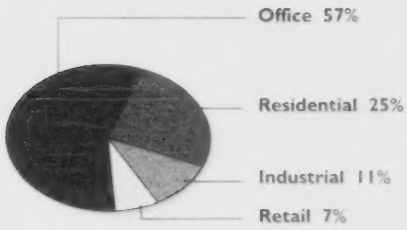
$ Billions


Canadian Equities $3.4 20.7%
Bonds $4.8 29.2%
U.S. Equities $2.8 16.7%
International Equities $2.6 15.7%
Real Estate, Mortgages, Private Placements $2.6 16.0%
Short-term $0.3 1.7%

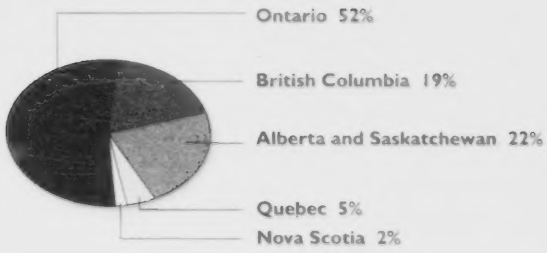
Bonds (Market Value)



Real Estate, by Type



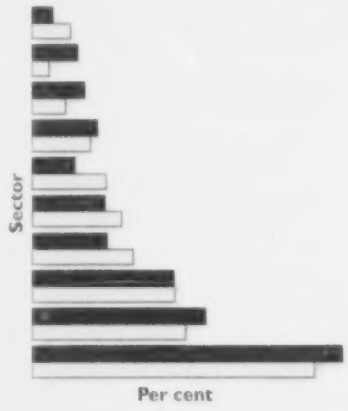
Real Estate, by Location



Investments Held as at December 31, 2003

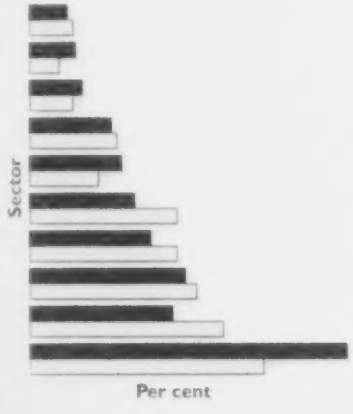
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Health Care	2.0	3.9
Utilities	4.5	1.7
Telecommunications	5.2	3.4
Information Technology	6.5	5.9
Consumer Staples	4.2	7.5
Industrial Products	7.3	9.0
Consumer Discretionary	7.5	10.2
Energy	14.2	14.4
Materials	17.4	15.5
Financial Services	31.2	28.5
	100%	100%



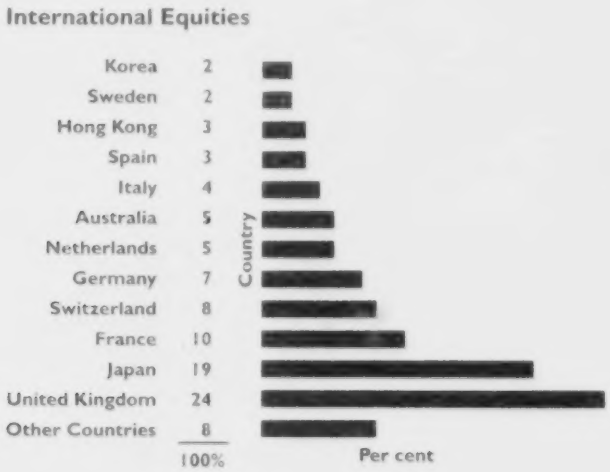
U.S. Equities, by Sector

	Indexed (%)	Actively Managed (%)
Materials	3.3	3.7
Utilities	4.0	2.5
Telecommunications	4.6	3.7
Consumer Staples	7.1	7.5
Energy	8.0	5.9
Health Care	9.1	12.7
Industrials	10.5	12.7
Consumer Discretionary	13.5	14.4
Information Technology	12.4	16.7
Financial Services	27.5	20.2
	100%	100%



Investments

Investments Held as at December 31, 2003



Investment Performance

Net Earned Rate of the Fund

Year	%
2003	**5.2**
2002	4.7
2001	8.4
2000	11.9
1999	13.7

Five-year average rates of return on the investments in the Basic Account.

Market Value Rates of Return for the Year Ended December 31, 2003

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)**	
Five-year Average Rates				
2003	5.2		5.1	
2002 Comparison	4.7		4.5	
Annual Rates				
2003	12.4	13.5	13.6	
2002 Comparison	-4.6	-3.6	-4.7	
2003 Annual Rates by Investment Category				**2003 Performance Benchmark Indices**
Short-term				
Money Markets	3.0	3.0	2.9	SCI 91-Day Treasury Bills
Bonds	4.7	4.7	4.6	SCI All Gov't Short-term Universe
Bonds				
Government	6.4	6.4	6.0	SCI Government
Corporate	7.7	7.7	8.5	SCI Corporate Universe
Long-term	8.4	8.4	8.0	SCI Government LT
Real Return	*	12.6	13.3	SCI Real Bond
Canadian Equities				
Actively Managed	26.9	26.9	26.7	S&P/TSX
Indexed	26.6	26.6	26.7	S&P/TSX
U.S. Equities				
Actively Managed	7.3	7.3	6.3	R1000
Indexed	5.3	5.3	5.3	S&P 500
U.S. Value	15.5	15.5	7.8	S&P 500 Value
U.S. Enhanced	5.3	5.3	6.3	R1000
International Equities				
Asia	20.0	20.0	13.3	MSCI Pacific Net
Europe	12.0	12.0	13.3	MSCI Europe Net
Europe, Australia and the Far East	11.8	11.8	13.4	MSCI Europe, Australia, Far East Net
Real Estate	7.6	7.6	6.0	CPI + 4%
Mortgages				
Fixed-term	6.9	6.9	6.2	SCI Short-term Bonds + 1%
Construction	6.4	6.4	4.4	SCI One-year Bill + 1%
Specialty	9.9	9.9	6.0	SCI One-year Bill + 2.5%

* Annual rate of return not available.

** Benchmarks are standards to compare against actual investment returns.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
R	=	Russell
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange Composite

(Source of annual rates: British Columbia Investment Management Corporation)

Financial Health

The Municipal Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

At least every three years an independent actuary assesses the financial health of the plan and calculates the funding requirements for future pensions. When the actuary examines the plan, they estimate the future value of the assets against the future value of benefits. Demographics such as age, length of service, annual earnings, and other factors of membership are all considered in the valuation process. In addition, factors such as inflation, mortality rates, disability and terminations are also considered.

The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

At the last valuation, the plan had a surplus for basic pension benefits of $436 million. A surplus means all basic benefits are funded, whereas an unfunded liability indicates there is a shortfall between the benefits promised and the assets available to pay for the benefits. Results from the next valuation at December 2003 will be available in the 2004 annual report.

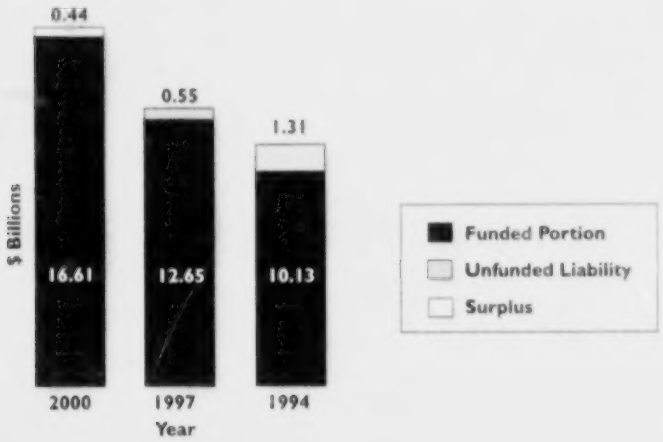
Latest Actuarial Valuation–December 31, 2000
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
	2000	**1997**	**1994**
For Funding Purposes*	$436	($548)	($1,310)
Ratio of Surplus (Unfunded) Liability to Covered Payroll	9%	(14%)	(36%)
For Accounting Purposes to December 31	$847	($297)	($1,081)

* Assuming contributions continue at rates in effect at the valuation date.

See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability

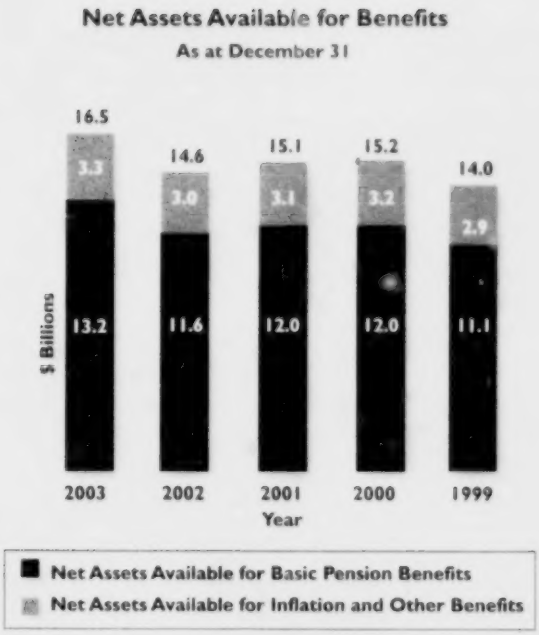


Five-year Financial Summary

$ Thousands

For the year ended December 31	**2003**	2002	2001	2000	1999
Increase (Decrease) in Assets					
Investment Income (Loss)	**$1,841,431**	$(649,002)	$ (182,933)	$ 1,074,640	$ 1,660,558
Contributions					
Members'	**360,200**	336,863	308,057	289,345	271,831
Employers'	**398,707**	373,785	345,111	328,169	302,592
Transfers from Other Plans	**36,880**	26,555	17,637	11,748	4,656
Total Increase in Assets	**2,637,218**	**88,201**	**487,872**	**1,703,902**	**2,239,637**
Decrease in Assets					
Pension Benefits	**525,142**	475,007	432,077	393,437	357,073
Termination and Refund Benefits	**46,415**	57,688	45,002	30,213	33,374
Transfers to Other Plans	**29,586**	58,597	13,614	11,020	1,576
Retired Member Group Benefits	**52,605**	51,003	39,627	34,872	30,860
Investment and Administration Costs	**41,247**	38,904	34,538	30,822	26,440
Total Decrease in Assets	**694,995**	**681,199**	**564,858**	**500,364**	**449,323**
Increase (Decrease) in Net Assets	**1,942,223**	(592,998)	(76,986)	1,203,538	1,790,314
Net Assets Available for Benefits at Beginning of Year	**$14,551,073**	$15,144,071	$15,221,057	$14,017,519	$12,227,205
Net Assets Available for Benefits at End of Year	**$16,493,296**	$14,551,073	$15,144,071	$15,221,057	$14,017,519
		As a Percentage of Net Assets			
Benefit Administration Costs	**0.12%**	0.12%	0.10%	0.08%	0.09%
Investment Management Costs	**0.13%**	0.15%	0.13%	0.12%	0.10%

Financial Health



Financial Statements

PENSION
CORPORATION

Executive
Offices

Mailing Address:
PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
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Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4199

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Municipal Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

SHELDON SCHWARTZ, C.F.A.
Chief Financial Officer
British Columbia Pension Corporation

SANDRA LENZ, C.A.
Director, Finance
British Columbia Pension Corporation

April 8, 2004

Financial Statements

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the statement of net assets available for benefits of the Municipal Pension Plan as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2003 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 8, 2004

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	2003	2002
ASSETS		
Investments (Note 5)	$ 16,475,501	$ 14,505,564
Receivables		
Members' contributions	14,025	13,532
Employers' contributions	14,367	14,968
Accrued investment income	2,073	1,576
Due from sale of investments	22,000	30,979
	52,465	60,855
Prepaid expenses	2,820	1,220
Cash	2,074	8,182
Total Assets	16,530,660	14,575,821
LIABILITIES		
Payable for purchase of investments	17,200	7,049
Accounts payable and accrued expenses	20,164	17,099
Total Liabilities	37,364	24,748
NET ASSETS AVAILABLE FOR BENEFITS	$ 16,493,296	$ 14,551,073

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)
- Contingency (Note 13)

Ken Bayne
Chair and Trustee
Municipal Pension Board of Trustees

Brendan Lack
Trustee
Municipal Pension Board of Trustees

Lyn Vandermey
Trustee
Municipal Pension Board of Trustees

Financial Statements

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2003	Totals 2002
INCREASE IN ASSETS						
Investment income (loss) (Note 4)	$ 1,449,844	$ 40,866	$ 400,621	$ -	$ 1,841,451	$ (649,002)
Contributions (Note 5)						
Members	290,407	7,162	55,109	1,402	400,200	350,865
Employers	329,400	8,774	14,209	55,518	508,707	475,785
	619,875	15,936	69,318	56,920	762,049	710,948
Transfers from other plans	27,084	-	3,758	-	30,842	20,455
Total Increase in Assets	2,096,803	56,802	473,697	56,920	2,634,322	82,401
DECREASE IN ASSETS						
Pension benefits						
Contributory	434,500	-	-	1,500	436,000	392,089
Indexing Supplements	88,970	-	-	70	89,040	82,418
	523,500	-	-	1,570	525,142	475,007
Termination and refund benefits	30,017	4,282	12,971	145	46,415	57,668
Transfers to other plans	21,238	-	8,568	-	29,806	58,907
Retired member group benefits (Note 10)	-	-	-	52,605	52,605	51,005
Investment and Administration costs (Note 9)	36,745	-	4,054	448	41,247	38,084
Total Decrease in Assets	611,540	4,282	25,593	54,780	694,995	681,199
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	1,485,261	52,520	448,104	2,140	1,939,327	(598,798)
Account transfers (Note 6)	172,378	(74,650)	(97,728)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	1,657,639	(22,130)	350,376	2,140	1,939,327	(598,798)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	11,569,087	280,720	2,701,360	-	14,551,074	15,144,071
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 13,226,720	$ 249,000	$ 3,016,880	$ -	$ 16,490,200	$ 14,551,074

Supplemental Benefits Account (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint Trusteeship was established April 5, 2001. The ongoing partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

Membership in the Municipal Pension Plan is open to all eligible employees of a municipality, school district, regional college, the health sector, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Partners and key stakeholders appoint sixteen trustees representing Plan members and Plan employers. The Chair and the Vice Chair are appointed by the other trustees. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides administrative services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

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MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 5.0% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($39,900 in 2003) and 6.5% of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account. (See Notes 5 and 10).

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the plan, less amounts allocated to the Supplemental Benefits Account (see Notes 5 and 10).

Inflation Adjustment Account
Members contribute 1% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (See Notes 5 and 10).

Retirement Annuity Account
Some employers have special agreements with members by which both make extra contributions to increase the members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic Account as additional pensions are purchased with the accumulated monies.

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service equaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the YMPE and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

d) Pension Benefits (continued)

Pensionable earnings are based on the member's five-year highest average salary (HAS). The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2003, retired members received a full CPI increase of 2.3% (2002: 2.6%). At January 1, 2004, retired members will receive a full CPI increase of 2.2%.

e) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contribution with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show whether these assets are adequate to meet the obligations of the Plan.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of those assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earning multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards have been transferred).

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in market value includes realized and unrealized gains and losses.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are accrued as earned and included as income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Use of Estimates (continued)

management estimates relate to that valuation of investments and the estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (FAIR VALUE)

	2003			2002
	Basic Account	Inflation Adjustment Account	Total	Total
		($ Thousands)		
Short-term	$ 154,628	$ 54,724	$ 209,352	$ 326,565
Canadian Bonds	4,016,171	858,148	4,874,519	4,412,773
Canadian Equities	3,255,384	742,979	3,998,363	4,027,185
U.S. Equities	1,756,661	402,712	2,159,373	1,041,514
International Equities	2,073,613	510,911	2,584,524	2,164,584
Mortgages	539,494	122,044	661,538	587,395
Real Estate	1,281,276	289,345	1,570,621	1,491,581
Private Placements	379,874	35,137	415,011	453,967
	$13,457,301	$3,016,000	$16,473,301	$14,505,564

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

3. INVESTMENTS (FAIR VALUE) (continued)

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC's external real estate investment managers and, at least, once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

Directly held forward foreign exchange contracts (included in U.S. Equities) are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future. There were no directly held forward foreign exchange contracts as at December 31, 2003.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or currency rates. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2003: $249.7 million; 2002: $280.7 million).

4. INVESTMENT INCOME

	2003			2002
	Income Allocation	Current Period Change In Market Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 7,639	$ (162)	$ 7,477	$ 4,705
Canadian Bonds	194,574	70,648	265,222	325,643
Canadian Equities	67,390	601,189	668,579	(426,494)
U.S. Equities	135,098	69,215	204,313	(217,881)
International Equities	44,663	200,207	244,870	(330,076)
Mortgages	32,069	1,801	33,870	36,340
Real Estate	64,297	28,114	92,411	75,627
Private Placements	4,484	(40,416)	(35,932)	(17,801)
Investment Income (Loss)	$550,214	$930,596	$1,480,810	$(549,937)
Retirement Annuity Account (Income) Loss Allocation			(30,966)	13,892
Investment Income (Loss)			$1,449,844	$(536,045)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

4. INVESTMENT INCOME (continued)

	2003			2002
	Income Allocation	Current Period Change In Market Value	Total	Total
		($ Thousands)		
Inflation Adjustment Account				
Short-term	$ 1,124	$ (21)	$ 1,103	$ 343
Canadian Bonds	44,468	26,947	71,415	104,162
Canadian Equities	14,895	132,501	147,396	(99,294)
U.S. Equities	34,185	12,714	46,899	(48,559)
International Equities	11,211	53,208	64,419	(81,046)
Mortgages	7,266	359	7,625	8,310
Real Estate	14,590	6,570	21,160	17,018
Private Placements	219	385	604	1
Investment Income (Loss)	$127,958	$232,663	$ 360,621	$ (99,065)
Total Investment Income (Loss)			$1,841,431	$(649,002)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the plan, as a unitholder, and as calculated by bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income (loss) based on the annual rate of return of the Basic Account.

5. CONTRIBUTIONS

	2003					2002
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)			
Members' contributions						
Regular	$273,283	$ -	$51,954	$ -	$325,237	$313,222
Special agreement	-	7,155	-	-	7,155	7,107
Arrears	2,268	-	283	-	2,551	1,255
Purchase of service	8,110	-	1,593	-	9,703	5,218
Leave of absence	1,212	7	244	-	1,463	474
Reinstatement	11,594	-	1,035	-	12,629	8,545
Supplemental benefits	-	-	-	1,462	1,462	1,042
	296,467	7,162	55,109	1,462	360,200	336,863
Employers' contributions						
Regular	309,030	-	11,014	-	320,044	303,611
Special agreement	-	8,774	-	-	8,774	8,643
Arrears	2,751	-	370	-	3,121	2,335
Purchase of service	10,234	-	1,623	-	11,857	5,963
Leave of absence	1,240	-	202	-	1,442	691
Reinstatement	151	-	-	-	151	-
Supplemental benefits	-	-	-	53,318	53,318	52,542
	323,406	8,774	13,209	53,318	398,707	373,785
Total Contributions	$619,873	$15,936	$68,318	$54,780	$758,907	$710,648

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

5. CONTRIBUTIONS (continued)

Member and employer contributions are as defined under the Plan rules.

Member regular Basic Account contributions of $1.5 million were allocated to the Supplemental Benefits Account to fund supplemental benefits.

Employer regular Inflation Adjustment Account contributions of $41.0 million were allocated to the Supplemental Benefits Account to fund group and supplemental benefits. Employer regular Basic Account contributions of $12.3 million were allocated to the Supplemental Benefits Account to fund group benefits and supplemental benefits.

6. ACCOUNT TRANSFERS

	2003			2002		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
			($ Thousands)			
Present value of current indexing supplements	$ 95,257	$ -	$(95,257)	$ 96,173	$ -	$(96,173)
Indexing of deferred pensions	2,465	-	(2,465)	2,310	-	(2,310)
Excess Interest	-	-	-	-	-	-
Pensions purchased from Retirement Annuity Account	74,656	(74,656)	-	27,061	(27,061)	-
	$172,378	$(74,656)	$(97,722)	$125,544	$(27,061)	$(98,483)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (please see Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There was no excess interest transfer to the IAA for the years ended December 31, 2002 and 2003. Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $4.8 billion of assets for 2003 (2002: $4.3 billion). The excess interest rate of return is determined by taking the difference between the actual five-year average market

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

6. ACCOUNT TRANSFERS (continued)

rate of return and the rate of return used by the actuary (7.25%) in valuing the plan's liabilities. The calculated excess interest rate of return for 2003 was -2.05% (2002: -2.55%), resulting in a negative excess interest amount of $98.2 million (2002: $109.5 million). The cumulative negative excess interest amount is $207.7 million which will be offset against future positive excess interest amounts.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic Account as additional pensions are purchased.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member/employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2000. This valuation disclosed a surplus for basic pension benefits of $436 million (1997: $548 million unfunded liability), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

The next actuarial valuation will be as at December 31, 2003, for inclusion in the December 31, 2004 financial statements.

The Joint Trust Agreement (Agreement) specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives, in order of priority:

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates and providing specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- 50% of any additional surplus assets must be transferred to a Contribution Rate Stabilization Reserve, and 50% must be transferred to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any legislative or Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefit costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance, of its possible occurrence, when the IAA assets may cease to grow and therefore, when full indexing of benefits may not be able to be granted. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members, is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the net present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not for, as yet unknown, future indexing.

The latest full valuation was made as at December 31, 2000, by Eckler Partners Ltd. The results were as follows:

As at December 31	2000	1997
	(Millions)	
Net assets available for basic pension benefits	$ 11,992	$ 8,982
Five year market value smoothing adjustment	(808)	(1,159)
Net actuarial assets for basic pension benefits	11,184	7,823
Liability for accrued basic pension benefits	10,337	8,120
Surplus (Unfunded Actuarial Liability – UAL)	$ 847	$ (297)

The next full actuarial valuation will be at December 31, 2003 for inclusion in the December 31, 2004 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes it is required that extrapolations between valuations be calculated. Such an extrapolation has been made to December 31, 2003, using the following long-term actuarial assumptions from the 2000 actuarial valuation:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On that basis, the extrapolated value of the Basic Account surplus at December 31 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits	2003	2002
	($ Millions)	
Net actuarial assets, beginning of year	$ 13,229	$ 12,183
Account transfers	172	126
Current year contributions	654	592
Net transfers to (from) other plans	6	(23)
Pension benefits	(525)	(475)
Termination & refund benefits	(30)	(58)
Retired member group benefits	(13)	(11)
Administration costs	(19)	(17)
Interest accrued on assets	971	892
Net actuarial assets, end of year	$ 14,425	$ 13,229

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits	2003	2002
	($ Millions)	
Liability for accrued basic pension benefits, beginning of year	$ 12,303	$ 11,296
Account transfers	172	126
Current period benefit cost	656	616
Net transfers to (from) other plans	6	(23)
Pension benefits	(525)	(475)
Termination and refund benefits	(30)	(58)
Retired member group benefits	(13)	(11)
Administration costs	(19)	(17)
Interest accrued on liabilities	904	829
Liability for accrued basic pension benefits, end of year	$ 13,454	$ 12,303
Extrapolated Surplus, December 31	**$ 971**	**$ 926**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

9. INVESTMENT AND ADMINISTRATION COSTS

	2003	2002
	($ Thousands)	
Investment Management	$22,234	$21,917
Benefit Administration	18,254	16,524
Board Remuneration and Expenses	572	586
Other Professional Services	187	277
	$41,247	$38,904

The bcIMC and the Pension Corporation are related parties to the Plan. The Board is represented on each of the respective corporate boards.

Costs for investment management services charged by bcIMC include the costs for internal and external investment management fees.

Benefit administration costs charged by the Pension Corporation are pro-rated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in accounts payable is $5.4 million due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Other professional services include actuarial, insurance, audit and legal fees.

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current employer inflation contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current employer basic contributions.

This is a publication of the Municipal Pension Board of Trustees.
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